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NSC FOR ABRAMS  
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SUBJECT: WESTERN SAHARA: ECONOMIC CONSIDERATIONS

REF: A. 2004 RABAT 1875  
B. RABAT 0658

Classified By: Ambassador Thomas T. Riley, for reasons 1.4 (b) and (d)

**¶1.** (C) Summary: The economy of Western Sahara is based almost entirely on fishing for export, which employs two-thirds of the local workforce, along with small bits of mining, agriculture and tourism. Existing infrastructure is good and cash flow is buoyed by a large military presence, tax breaks for businesses, subsidies on fuel, and a five-year, \$800 million investment package from the Government of Morocco (GOM). Still, the territory faces serious economic challenges: unemployment over 20 percent, a rapidly expanding urban population, scarce water resources, and threatened fishing grounds - source of employment for 70 percent of the region's workers. The Western Sahara's much-touted phosphate reserves are relatively unimportant, representing less than two percent of national holdings. Agriculture for export has been successful in Dakhla but is not practical on a large scale due to water scarcity. Niche tourism exists, but the region's remoteness makes it unlikely tourism will ever constitute a significant economic base. There is optimism in the private sector, but a Wild West atmosphere pervades, where local connections are essential and the question of political leadership unresolved. This cable is based on Econoff's May 9-12 visit.

End Summary.

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Economic Infrastructure  
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**¶2.** (U) Western Sahara (WS) has only two cities of any size: Laayoune, 800 miles south of Rabat, and Dakhla, 300 miles further. The region has some good infrastructure. A paved road runs the length of the territory, and ports in both Laayoune and Dakhla have been recently renovated. Both cities, airports can handle the largest passenger and cargo planes. Laayoune is connected to the national electric grid, which the GOM is expanding down toward Dakhla, expected to arrive in just a few months. Dakhla is currently powered by a diesel-burning thermo plant in the city's industrial zone.

**¶3.** (SBU) The population of Western Sahara is between 400,000 and 500,000. Laayoune, the territory's largest city at 180,000, has no fresh water source. A GOM-built desalinization plant supplies Laayoune and the surrounding areas with water, but high energy use makes desalinization costly: average production cost of desalinated water is almost \$3 per cubic meter, whereas the state-set price of water in Morocco proper is 23 cents. Water is sold to Laayoune customers at the national price, and the rest of the country subsidizes the difference. Dakhla, on the other hand, sits on an underground aquifer that supplies the city and nearby agriculture with water. No study has been done on how much or how many Dakhla's aquifer can support, and estimates by local authorities varied wildly. Dakhla grew from a dusty settlement of 38,000 in 1994 to 90,000 in just 10 years, and city officials predict this kind of growth will continue, putting added pressure on the desert aquifer.

**¶4.** (SBU) Dakhla is a city under construction. Since 2001 authorities have built a new center square, plowed old warehouses for a seaside pedestrian boulevard, and built a new port. A forest of construction cranes works to keep up with the influx of GOM investment and jobseeking migrants from the north. The city is crawling with police and military, but other than that and the inordinate amount of construction going on, seems a normal desert frontier town.

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Fishing: the Region's Economic Sine Qua Non  
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**¶5.** (U) Fishing is all-important in Western Sahara, employing two-thirds of the population. The area boasts some of the richest fishing grounds in the world, but octopus, the most profitable species, is threatened and subject to

government-mandated fishing bans that have expanded each year since their inception in 1989. The ban lasted eight months in 2004, and the Ministry declared another halt on May 10, estimating just 2-3 months would be necessary but making clear they would allow fishing to restart only when stocks begin to show signs of recuperation.

**16.** (SBU) Despite declining octopus stocks, processing plants continue to expand. Hammoudi Houmaid, a Spanish-speaking lifetime Dakhla resident, cleans and freezes octopus for export to Europe and Japan. His company, Dakmar II, trucks its product to Agadir, whence it is shipped overseas. In spite of declining stocks, Houmaid is building another floor to his plant, which employs 300, where he will cook octopus for package and sale directly to supermarket chains in Europe.

**17.** (U) The other main exploited species is the low-value, high-volume sardine, which is processed and frozen for export. In Dakhla, small scale "artisinal" fishing employs 90 percent of area workers. Dakhla's port takes in 500,000 tons of sardines a year for processing at the city's freezing plants, but there is little value-added processing done, just basic cleaning and freezing for export to Europe, Japan and Egypt. The port of Laayoune takes in another 450,000 tons of sardines.

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Go Fish: GOM Investment in the Sector  
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**18.** (U) Octopus fishing attracted thousands to the WS in the 1990s. Fishermen created slum villages and exploited the limited natural resource irresponsibly for 10 years, until the GOM stepped in to regulate the catch. The GOM is spending \$130 million to build seven fishing villages along the length of the territory, building halls where fishermen will sell their catch to wholesalers, providing micro-loans for new boats, and building subsidized housing.

**19.** (U) Surprisingly, Saharawis have no tradition of working on the sea, and seamanship is regarded as undesirable work. To counter this tide, the GOM is providing job training in fisheries to area residents. Eight training centers nationwide accept 48 students a year into a two-year program in navigation, nautical engines, refrigeration mechanics, nets and knots, and the biological life cycle of local fish species. The students live on campus and all expenses are paid by the state.

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Tomatoes for Export  
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**10.** (U) WS is fortunate to have a year-round growing season and good road access to markets in Europe, but what the region possesses in sunshine, it lacks in fresh water. Laayoune depends on expensive desalination, and the longevity of Dakhla's fresh water aquifer is unknown.

**11.** (SBU) Thus far, the region's only large-scale agricultural project is a 100-hectare covered plot near Dakhla employing 500 people and exporting 5,000 tons of top-quality tomatoes to Europe and Canada each year. Surrounded by bone-dry desert for 1,000 miles in any direction, there are no horticultural diseases or pests endemic to the area and the farm is certified to export to the world's most discerning markets in the United States, Canada and Europe. Produce is taken by refrigerated container truck from Dakhla to Madrid - a two and a half day overland journey - and from there to European destinations by truck or to Canada by sea.

**12.** (SBU) Despite water constraints, the region has advantages for agricultural production: the absence of endemic pests, a year-long growing season and a seashore microclimate that keeps temperatures within a stable range day and night. Western Sahara's southern latitude sees produce mature 10-15 days before competitors in Agadir 1,000 miles to the north, giving producers in Dakhla a two-week head-start in European markets. Also, while Morocco suffers from regular periodic drought and a dropping water table, Dakhla's aquifer provides a constant year-round source of irrigation.

**13.** (C) But while the weather outside is spectacular, the investment climate is a mixed bag. When the French/Moroccan partners signed their \$12 million joint venture with the GOM in 2002, it was for 300 hectares on the Dakhla peninsula. In 2003, with 100 hectares installed, authorities put a halt to further expansion, substituting another piece of land 150 km away on the mainland. Authorities told Econoff they halted the farm's growth (in violation of the investment contract) because of concerns over the aquifer and the farm's proximity to the city limits. Although authorities said the change in the contract was mutually agreed to, farm manager Philippe

Boissier told Econoff it was not. "You can't forget you are in Morocco!" said Boissier, who is French. Boissier also complained that the company was forced to give shares to local tribal leaders for buy in, or as he put it, "in order to get anything done." Boissier said cooperation with the national authorities in Rabat was good, and that the blockage was at the local level. Boissier, who set up a similar farm in Mexico in the late 1990s, compared the investment climate in WS very unfavorably to that of Mexico.

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Holsteins in the Desert  
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¶14. (SBU) Animal husbandry seems a strange choice in a region with a scant 35 mm of precipitation per year, but since camel herding has long formed part of the region's traditional labor activities, the sector has been targeted for development. Operators are now raising Holstein cows at a dairy cooperative in Laayoune, an unexpected sight in the desert. The cooperative, created with GOM help in 1994, now employs 150 people and supplies 40 percent of the local market in cow and sheep milk. Officials are now putting together a similar project for camel milk, a highly-prized commodity in the Sahara.

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Tourism, at the End of the Earth  
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¶15. (SBU) One or two thousand mostly European tourists visit the Western Sahara each year, principally adventure travelers crossing the desert or going to Dakhla for sport fishing, windsurfing, and miles of unspoiled beaches. While the region lacks any real cultural draw and is probably too far from any large population center to attract mass tourism, small scale niche tourism markets exist and the Dakhla area is fast turning into a windsurfing mecca. Authorities also hope the "exotic" label will prove a draw and that the promise of a camel ride on the beach, a night in a nomad tent or simply the chance to set foot in Africa could be enough to pull day-trippers over from the Canary Islands. The Canaries attract 12 million tourists a year, and if even one percent of those took the 20-minute flight to the African mainland at Laayoune for a day or overnight excursion, the 120,000 tourists a year could transform the region's tiny economy.

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A Shift in Focus, and an \$800 million Investment Program  
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¶16. (C) Moroccan leadership in the Western Sahara is resolute about promoting economic growth. Laayoune regional governor (wali) Mohamed Rharrabi said the GOM is turning its attention from the "political dimension" toward the economic development of the territory. He said instead of focusing on the political leanings of the area's residents, the GOM is concentrating on improving people's lives through job creation, training and basic infrastructure.

¶17. (C) Proof of this change in focus lies in the government's \$800 million, 2004-2008 infrastructure investment plan (Ref A). The money will go toward what planners believe are the region's top commercial prospects: fishing, housing, agriculture, and tourism. The plan has merits: the region has some of the world's richest fishing grounds; Dakhla greenhouses are already exporting top quality produce to Europe; and the region has hundreds of miles of golden sand beaches with not a soul in sight. However, each of these sectors faces an uphill struggle. Octopus, by far the most profitable species caught in the WS, is in rapid decline, with government scientists imposing increasingly longer fishing bans each year. Dakhla's aquifer may be able to support limited agriculture, but Laayoune's desalinated water is far too expensive to permit large scale activities. And while the region has sunshine and miles of empty beaches, it has little more, and is far from just about anywhere.

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Made in Morocco  
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¶18. (C) Until two years ago, Dakhla-based fisheries were transporting their product by truck to Agadir for export by sea and by air from there. Most are now leaving directly from Dakhla port. Econoff visited processing plants where hundreds of workers were cleaning, freezing and boxing squid and sardines for export to Europe, Japan and Egypt. The fish is caught offshore Western Sahara, cleaned and frozen in a Dakhla plant, and shipped through Dakhla port, in boxes clearly labeled "Produit du Maroc" - Product of Morocco.

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Phosphates: Raison d'Etre, or a WS Myth?  
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119. (C) Moroccan state-owned phosphates company OCP runs mines in Western Sahara at Bou Craa, 100 km inland from Laayoune. The Bou Craa deposits are economically insignificant for the GOM, representing less than two percent of proven national reserves, but may be relevant from a political and social (employment) perspective. The ore is hauled on a 98 km-long conveyor belt - the longest in the world - over harsh desert terrain to the sea port of Laayoune for export directly to the United States and other countries.

The terrain and the deposits, distance from sea ports make the WS mines largely unprofitable, but they employ 1,900 people in an employment-hungry region and provide other social benefits to the area (septel).

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Can WS's Subsidized Lifestyle Last?  
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120. (C) In Western Sahara, businesses do not pay registration fees or taxes on their income. Curiously, this tax exemption has been given in practice since the 1980s, but has never been formally legislated. Laayoune Regional Investment Center (CRI) director Hassana Maoulainine publicly boasted about the benefits of tax-free status for businesses, but privately told Econoff he believes the regime is not sustainable. Maoulainine said the tax breaks have led to the creation of phantom enterprises to avoid paying taxes on income generated outside the region, leaving local municipalities starved for tax revenue.

121. (C) In addition to losing tax revenue, the state heavily subsidizes basic goods to keep WS's financial ship afloat. Gasoline is sold for half price. Water from Laayoune's desalination plant is sold at one-tenth the cost of production. Subsidies also exist for basic necessities like sugar, wheat and cooking oil. These benefits, in addition to the GOM's \$800 million infrastructure program (Ref A) serve as powerful incentives that have brought thousands of job-seekers to the territory in recent years, pushing the region's already high unemployment rate above 20 percent.

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"Economics Will Trump Politics in WS"  
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122. (C) But despite the uphill struggles, there is surprising optimism among private sector operators in the region. Derham Derham, a Dakhla native and part owner of the 100 hectare tomato farm, is certain that economic growth is the answer to the political impasse in Western Sahara. Derham believes that as the region gets richer and jobs become more plentiful people will be less concerned about which political administration they fall under: "Economics will trump politics and work us out of this problem in the Sahara," he said.

123. (C) Indeed, an \$800 million investment by the Government of Morocco in a territory with the population of Wichita, Kansas has to be one of the larger per capita aid programs in history. And although unemployment is high, the specter of 20 percent joblessness is easier to fix in a region of 300,000 than in an economy of 30 million. Fishing plant owner Mohamed Zebdi, who is doubling the size of his 550-employee sardine plant this year, thinks Dakhla's high unemployment rate is short-lived. "With five or six more projects like mine," he said, "Dakhla's unemployment problem is gone. You do the math."

124. (C) Comment: WS is a land far from everything but politics, and the struggle over the disputed territory is never distant from business owners, minds. Most operators Econoff spoke with expressed complete confidence in the region's political stability and the security of their investments, even though authorities do not always operate with full respect for due process and contract enforcement. Keeping the economic playing field level in WS seems to be a more difficult and nuanced task than in Morocco proper, as deep-rooted local interests and a culture of tribalism make objective economic decision-making difficult. Spanish operators from the Canary Islands told Econoff they operate in a system where local connections and extra-contractual quid-pro-quo rule the day, and powerful local interests have operated for decades outside normal economic and legal structures.

125. (C) Comment continued: In the region's lifeblood fishing sector, the most profitable species has been overfished and catch periods are limited. Phosphate reserves are exploited as a social safety net, not a commercial venture. With scarce resources, rapid urban growth and high unemployment, WS may be an economic basket case in 10 years. Political detente and an opening to outside competition may bring authorities into line, but for the time being a sort of Wild West mentality pervades, where connections are everything and a local partner a necessity for foreign investors. Certainly

the tax breaks, the fuel subsidies, and the \$800 million investment package will help. But aside from its rich fishing grounds and notwithstanding a possible offshore oil discovery (Ref B), the territory is unlikely ever to be much of an economic boon for the state.

RILEY